33 Top Tips for Succession Planning

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01 Plan for exit 2-5 years in advance (really!). Planning in good time will avoid you leaving yourself, your business and your team in a vulnerable position.

02 Do not assume you can carry on indefinitely. A business left to your family to run because of sudden ill-health (or death) can create huge problems and without you there your business may decline rapidly to the point where a sale becomes impossible.

FACT!

Statistics suggest that 81% of SME trade sales fall through before completion. Take the time to consider the alternatives. It doesn't hurt simply to explore these; there may well be things that you hadn't known were possible.

03 Map out your future after exit. What do the next 2, 5 and 10 years look like? Do you want to carry on working in the business or would you like to sail around the world?

04 Consider all of your options. You may think you can sell to a trade buyer but achieving a sale on acceptable terms may be difficult to achieve.

05 Do not ignore the important question. Will your business actually be ready for you to leave when the time comes?

06 If you co-own a business, formulate a plan with your fellow shareholder. If you want to sell in 2 years' time but your business partner wants to wait another 10 years then you may have a problem!

07 Do your research. The more informed you are the better prepared you will be.

08 Mind the gap! If your business depends on key employees don't assume you can sell from underneath them. Your buyer will not like this and your team could de-rail a sale by leaving.

TOP TIP!

Websites, hints, tips, case studies, workshops and seminars can be great ways of receiving advice and information at little or no cost.

TOP TIP!

Pay rises, bonuses and additional benefits can be a great way to motivate and lock in your key employees, but tax-advantaged employee share incentives can take this to the next level. Your employees can become a part of your succession plan and they will see that they too can benefit from the business moving on to its next stage of development.

09 Don't communicate plans to your team that are vague or uncertain. Uncertainty will unsettle them. Your succession plan should be communicated at the right time and in the right way. Trust takes a long time to build but is very easily lost.

10 Lock-in your key employees so they are motivated to help you sell.

11 Take tax advice. Make sure you will only pay capital gains tax at 10% with entrepreneur's relief.

12 Speak to independent professionals early. Choose advisers who will give you an honest assessment of your business and your options. Otherwise you could waste time and money attempting to do something that will never work.

13 Take your succession plan seriously but don't let it become too much of a distraction. You and your team need to remain focussed on the "day to day" work otherwise your business may suffer.

14 See your succession plan as an opportunity. A plan that is well thought-through can be of huge benefit to you, your family, your team and the business itself. It can also be very life affirming and positive for you and your team if approached in the right way.

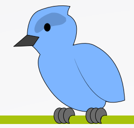
TOP TIP!

Be realistic in your expectations and goals and have a team of professionals around you that can offer commercial and personal support, as well as tax and legal advice.

15 Don't expect succession planning to be without challenge!

If you're thinking of selling via a trade sale...

16 Be flexible (as timing can be everything).



17 Consider whether a sale of the shares in your company or a sale of the business assets by your company will be most appropriate and tax-efficient for you and your buyer.

FACT!

A buyer of shares in a company will be buying all the historic liabilities. If your business has significant risks associated with it or significant debt (companies are typically sold on a cash free/debt free basis) you may not get the price you want. Selling the assets could be an alternative but may not be as tax-effective for you.

18 Obtain a confidentiality undertaking from your buyer. Otherwise the information you provide to them during negotiations is not protected.

TOP TIP!

Be realistic in your expectations and goals and have a team of professionals around you that can offer commercial and personal support, as well as tax and legal advice.

19 Insist on Heads of Agreement. If well-drafted this will ensure effective project management: it acts as a communication tool. Key terms/elements will be discussed at the early stages allowing everyone to feel more comfortable with the rest of the process.

20 Maximise the up-front cash. The more you are paid on day 1 the safer you are.

21 Be wary of deferred payments. Keep any deferred payment period as short as possible and if you accept deferred payment think about security. You might want a personal guarantee from the individuals behind the buyer or a charge over assets.

22 Be wary of earn-outs. Otherwise you may lose out on significant sums of money.

TOP TIP!

Fix earn-outs by reference to turnover or gross profits – net profits are easier for unscrupulous buyers to fiddle! And ask your legal adviser to include ring fence protections with a liquidated damages clause.

23 And be wary of completion accounts. Whilst they may seem simple they can add serious amounts of unnecessary complexity to any deal.

24 Don't underestimate the importance of culture. Will your buyer look after your team? Will they maintain your premises or close everything down and absorb your business into theirs?

25 Review your contracts. Are these legally sound? What is their duration? Do they provide for early termination on a change of control? A buyer will want to know...

26 Systemise your business.

27 Speak to a merger broker.

28 Prepare a Legal Due Diligence Pack before you are asked for it.

TOP TIP!

Replying to a buyer's legal due diligence request can be time-consuming and difficult. With help from your legal adviser you can take the initiative and prepare replies to standard enquiries before you even put the company up for sale. The exercise will also allow you to identify any potential problems well in advance.

If you're thinking of selling to your team...

29 An MBO, communicated in the right way and early on in your succession plan, can be a powerful way to lock in your team, recruit the right people and grow your business to maximise your own investment.

32 Consider using a share incentive as a stepping stone to a Management Buy-Out.

TOP TIP! Consider becoming a banker to your own deal. An MBO can be structured in a way that allows you to be paid out of the future cash flow of the business.

30 Don't assume your team can obtain external finance. The lending market can be difficult and your team may already have high personal borrowing.

33 Stay involved... for a while at least! The handover and "step-up" from employee to business owner can be daunting.

31 Take a step back. Are your team actually ready for this? Would they be interested? Do they have the right skills? Do you need to recruit someone to fill a skills gap?

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You only sell your business once.

Careful planning and preparation can make all the difference.

We host regular free workshops for business owners that will give you a great insight in to what could be the solution you've been looking for. At the very least, you'll know more about getting your business sale ready.

SUCCESSION PLANNING WORKSHOP

Our next workshop is on Tuesday 18th September 8-10am

Everyman Legal, Windrush Park, Range Road, Witney OX29 0YN

To book your place please email nicola.blackford@everymanlegal.com or telephone 01993 893620

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